

MINUTES

MONTANA SENATE 56th LEGISLATURE - REGULAR SESSION

FREE CONFERENCE COMMITTEE ON SENATE BILL 200

Call to Order: By **CHAIRMAN MIKE TAYLOR**, on March 29, 1999 at 3:37 P.M., in Room 108 Capitol.

ROLL CALL

Members Present:

Sen. Mike Taylor, Chairman (R)
Rep. Douglas Mood, Chairman (R)
Rep. Gary Beck (D)
Sen. Bob DePratu (R)
Sen. Mike Halligan (D)
Rep. Bob Story (R)

Members Excused: None.

Members Absent: None.

Staff Present: Greg Petesch, Legislative Services Division
Jim Standaert, Legislative Fiscal Division
Phoebe Olsen, Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: SB 200, 4/25/1999
Executive Action:

CHAIRMAN TAYLOR passed out **EXHIBIT(frs70sb0200a01)**, **EXHIBIT(frs70sb0200a02)**, and **EXHIBIT(frs70sb0200a03)**. **CHAIRMAN TAYLOR** reviewed the history of the bill and it's purpose. The bill was originally intended to create jobs and income by reducing taxes, thus generating more revenue for companies to expend into the economy. The Senate passed the bill with a tax reduction of \$34,000,000.00, the House revised it to \$27,000,000.00 and the Governor reduced it to \$17,000,000.00. **CHAIRMAN TAYLOR** felt the trigger must be at least three percent

to be effective, and explained a trigger was a mechanism used to activate the business tax reduction in a reasonable and responsible manner. What to use as a trigger, and the implementation of the trigger was the concern. **CHAIRMAN TAYLOR** advised General Fund growth was not a reliable trigger as it could be manipulated. The other triggers he wanted to considered where ending fund balance, Montana wage and salary growth, and per capita income.

REP. MOOD thought the bill had lost the original focus of creating jobs by stimulating the economy, and became a tax bill. He agreed a three percent tax would work, but wanted to see the tax reduced to zero. **REP. MOOD** felt the trigger mechanism was backward, and instead of the trigger depending on growth, growth should set off the trigger. If growth was slow the trigger should be activated. **REP. MOOD** advised Montana was trying to compete with a world market, and with the highest business taxes it was not possible. *{Tape : 1; Side : A; Approx. Time Counter : 4:05}*

SEN. DEPRATU cautioned that Montana did not get to 51st overnight, and it would take more that one or two years to see change. **Idaho** changed their tax policy ten years ago, and did not start to see results until three years ago. **SEN. DEPRATU** felt businesses would wait to see if the state changed the laws back. **SEN. DEPRATU** stated every business looking to relocate in Montana wants a tax exemption, and that should be a red flag.

REP. BECK felt there were four problems Montana in trying to stimulate growth: distance and travel to market locations, a Northern climate, housing costs verses wages, and finding a balance between generating income and covering the cost of operating services.

SEN. HALLIGAN agreed there needed to be a tax break in order to stimulate the economy. He felt states were cannibalizing each other by cutting taxes, and Montana could not compete with that. **SEN. HALLIGAN** stated there was a fiduciary responsibility to provide public services. The trigger should be a benchmark to insure enough income to be responsible to the citizens of the state. **SEN. HALLIGAN** thought the three percent trigger was acceptable, however wanted to see it spread over a longer time frame.

REP. STORY explained the Ending Fund Balance could be manipulated, and therefore would have the same problems as the General Fund. The per-capita income could be flawed because there was unearned income considered. The increased jobs was inaccurate as modernized equipment in some industries would

reduce the number of employees, but increase the average wage. **REP. STORY** felt the wage and salary indicator may work.

CHAIRMAN TAYLOR believed the **class 8** sector was easy to monitor.

CHAIRMAN TAYLOR stated Montana was losing the technology war. The universities spent money on research, and the information was taken to another states to start businesses. He felt this was because the business tax was too high in Montana.

SEN. HALLIGAN asked if there was a consensus three percent should be the trigger. **SEN. DEPRATU** agreed. **REP. BECK** agreed, and mentioned other states had a sales tax to help generate income, where Montana does not. **REP. STORY** agreed, and commented if the agriculture tax was reduced to zero the counties in Eastern Montana would have to increase property taxes to make up the difference. **CHAIRMAN TAYLOR** agreed with **REP. STORY**.

Motion: **SEN. DEPRATU** moved **TO ACCEPT THE TABLE AS WRITTEN BY THE GOVERNOR EXCEPT THE TRIGGER WOULD BE AT THREE PERCENT**.

Discussion:

REP. STORY asked if the agriculture would stay as written by the Governor. **SEN. DEPRATU** advised it would.

Greg Petesch, Legislative staff, asked if there would be a phase-in so in 2003 the tax would be three percent, with a five, four and three percent phase in. **SEN. TAYLOR** agreed, and stated the motion was to adopt the phase-in as written by the Governor, except to bring the trigger to three percent. The committee would discuss the trigger next.

Vote: Motion **carried unanimously**.

{Tape : 1; Side : B; Approx. Time Counter : 0}

CHAIRMAN TAYLOR reiterated that the trigger would be at three percent, and now the discussion would be on the trigger itself.

REP. STORY asked if there had been consideration using the growth of business equipment value as the trigger being. **CHAIRMAN TAYLOR** stated there had been some discussion about that, and that would be tied to the **class 8** tax.

REP. STORY asked **Mary Bryson**, Department of Revenue, if the department had the historic growth rates for **class 8**. **Ms. Bryson** advised they did, and based on House Joint Resolution 2 it was four percent. **REP. STORY** remembered that 25% of the equipment

was new. **Ms. Bryson** stated 25% of the equipment was less than a year old, and the other figures were a combination of equipment being depreciated, and the actual value. **Ms. Bryson** felt the department would be able to compile a historic growth comparison. { *Tape : 1; Side : B; Approx. Time Counter : 4:33*}

SEN. HALLIGAN thought there should be an inflation factor if the wage and growth figure was going to be used. If the inflation figure was not adjusted out, the five year average could be exceeded within one year.

REP. BECK felt the wage and salary growth might be skewed because higher paying jobs would increase the average, when in fact the median income did not change. **REP. BECK** felt the median income should be monitored. **CHAIRMAN TAYLOR** agreed with **REP. BECK**.

SEN. DEPRATU did not believe the median income could be separated, and advised the wage and salary growth was an average of all incomes. If the wage and salary grew chances were all income levels were increasing.

SEN. HALLIGAN asked why the Governor felt it was important to tie the trigger to the General Fund. **Ms. Bryson** stated it was a way to determine the future budget, and she did not believe the Governor was insisting on that as a trigger.

SEN. HALLIGAN felt the trigger should be a combination of items that could be measured. **SEN. DEPRATU** thought that idea had merit, but wanted to keep the process simple. **SEN. DEPRATU** believed if the trigger was too complicated, or a new measure had to be developed, the bill would not be acceptable.

REP. MOOD stated he had been talking to **Scott Seacat**, Legislative staff, and they had the idea of using a specific dollar figure. If the General Fund Balance was at \$120,000,000.00 in 2003 the Business Equipment Tax would be reduced.

REP. STORY asked what time frame that would cover. **REP MOOD** thought fiscal years 2000 to 2002. **CHAIRMAN TAYLOR** felt it would have to cover two bienniums. **Jim Standaert**, Legislative Fiscal Division, stated the average was \$90,000,000.00 to \$100,000,000.00 per biennium.

REP. STORY asked if one-time only money would be included. **SEN. HALLIGAN** explained the tobacco settlement money was \$30,000,000.00, and one-time only funds would have to be excluded. **CHAIRMAN TAYLOR** felt it was unrealistic to leave out one-time only funds, and asked **Mr. Standaert** how the General Fund

Balance could be figured without manipulation. **Mr. Standaert** advised it could not be done because there were too many variables.

REP. STORY stated income tax make up 45% of the General Fund, and they were subject to Federal policy. **CHAIRMAN TAYLOR** advised if the tax structure was simplified it would create a problem.

REP. BECK reminded the committee the premise of the bill was to create jobs and income, and the trigger should be a measure of that.

SEN. HALLIGAN felt if a combination of wage and salary growth, minus inflation, and evaluation increase, minus exemptions was used it would allow a fair assessment for a trigger.

CHAIRMAN TAYLOR asked **Mr. Standaert** to show the committee how a formula using the wage and salary growth, tied to the market increase of **class 8** values, reducing the trigger percentage over the next three years would look. **Mr. Standaert** felt each item should be weighted, and gave the example as follows: If the wage and salary average over three years was 5%, times that by .50%, then assume the average of market growth of **class 8** is 3.6%, times that by .50%. There would be an average. The measure for the trigger would have to be established but it would be based on the averaged percent.

SEN. DEPRATU thought that would be a good idea, and commented if one section stumbled the other could offset it, however if both were done the average would reflect the reduction.

SEN. DEPRATU asked **Ms. Bryson** if the reporting had changed for the exempted \$5,000.00 in equipment, he felt the change could effect the percentage. **Ms. Bryson** thought if the law was changed and businesses did not have to report exempted equipment the base figure would be wrong. The percentage would include a base with the exempted equipment, however on-going there would be a reduction in equipment, because over 40,000 small businesses would not be reporting.

REP. STORY thought there was a Governor's amendment limiting reporting for exempted equipment.

SEN. DEPRATU disagreed with not reporting. The concern was the state may lose track of a business that was not reporting, and if new equipment was purchased over \$5,000.00 there would be no way to know it.

CHAIRMAN TAYLOR and **SEN. HALLIGAN** agreed the base, and the

on-going numbers would have to include the same factors.

REP. STORY thought there was a exemption for \$15,000.00 in hand-held tools, and asked if those were reported. **Ms. Bryson** was unsure.

SEN. TAYLOR asked the committee if they wished to pursue this as a trigger. **REP. STORY** thought they should, and asked what the historical growth of the two were. **REP. STORY** felt if one section grew at a much higher rate than the other, using 50% of each could be a problem. *{Tape : 2; Side : A; Approx. Time Counter : 0}*

SEN. HALLIGAN asked if the jobs training credit was gone. **CHAIRMAN TAYLOR** advised it was.

SEN. DEPRATU commented with the Governor's concern to tie the trigger to the General Fund these may not be acceptable.

SEN. HALLIGAN wondered why per capita income was not considered. **Mr. Standaert** advised there were to many variables that were not linked to economic growth, such as retirement income.

SEN. HALLIGAN asked what inflation figures were added to the wage and salary growth. **Mr. Standaert** reviewed the figures from 1995 to 1999, the average was about 2.3%. **SEN. HALLIGAN** though it would be easy to back out the inflation and use that figure. **REP. STORY** asked if that was a National rate. **Mr. Standaert** advised it was.

SEN. HALLIGAN wanted to know if anyone had an idea what would be acceptable to the Governor. **CHAIRMAN TAYLOR** stated the Governor's advisor indicated the concern with the General Fund was there be enough to budget, and thought anything was acceptable as long as there was growth to the General Fund.

SEN. HALLIGAN thought the committee should break and the Legislative staff work the numbers to see if the combination of wage and salary, and the class 8 tax would work.

REP. STORY wanted to know if the weights should be 50/50. **Mr. Standaert** advised the mix might have to be changed because wages and salaries were fairly constant, however class 8 had large fluctuations between years.

CHAIRMAN TAYLOR suggested a figure be compiled as a goal. **SEN. DEPRATU** felt the committee should work backwards to compile the

figure, and wanted to know if they were looking for a figure fair to business.

The committee discussed several figures and decided the base was \$84,000,000.00, and had been growing at approximately 2.8%. If a base figure was used as **REP. MOOD** suggested, and growth added it was determined the base would need to grow at \$24,000,000.00 and the trigger would be 3.6%.

CHAIRMAN TAYLOR stated that would be a compromise, and addressed the concerns that a General Fund Balance remained.

REP. STORY reminded the committee there were several other bills effecting the General Fund balance, and the \$28,000,000.00 was going to be hard to hit with the tax reform. The General Fund balance would not compare to the historic figures. **SEN. DEPRATU** agreed, and felt the trigger should be a combination of wage and salary and class 8 tax. This figure would be stable, easy to measure, and based on known factors.

SEN. HALLIGAN felt the move to three percent was too quick, and the time frame should be extended. **SEN. DEPRATU** stated if the three percent was not in effect as soon as possible, growth would not be stimulated. **CHAIRMAN TAYLOR** agreed and commented the trigger was needed to extend beyond the three percent, not to get to the three percent.

There was debate by the committee whether to use a formula or a base number to set the trigger, and how the other tax bills would effect the General Fund.

SEN. HALLIGAN wanted to postpone the meeting until the Fiscal staff had a chance to compile the number. **CHAIRMAN TAYLOR** advised that would be fine once the committee decided what trigger to use.

REP. STORY was concerned the \$5,000.00 exemption would cause the figures to be off in the future. **Ms. Bryson** advised the comparison has to be the same. A base had to be created without the exempted equipments. **Ms. Bryson** felt it would be possible to compile those figures. **Mr. Standaert** felt he could create a reasonable index from the information he had.

Mr. Petesch stated since the phase-down was extended, the committee needed to decide what year the trigger would be applicable. **Ms. Bryson** stated the wording would have to allow the trigger to be in effect for several years. The bill would have to be amended to allow the trigger to roll from year to year. If the trigger was not used one year the figures would be

remeasured each year until the trigger was set.

SEN. DEPRATU wanted to make it real clear the trigger would have to roll.

There was discussion between the committee and Legislative staff what base year should be used to run the figures, and when the information for each year would be available. **CHAIRMAN TAYLOR** advised for each 1% reduction there was a \$12,000,000.00 effect to the General Fund.

SEN. HALLIGAN was still concerned the year 2003 was to soon to be at 3%. **CHAIRMAN TAYLOR** understood the concern and stated unless something is done in the near future there would be no businesses to tax.

REP. STORY asked when the department needed to know the rate. **Ms. Bryson** advised in order to set the mills the rate must be know, and that was usually May of the next year. **REP. STORY** asked if the department would have the 2003 numbers by May of 2004. **Ms. Bryson** thought that was possible.

SEN. HALLIGAN explained he wanted to move some into the next biennium to get to the trigger. **CHAIRMAN TAYLOR** thought that might be an idea. *{Tape : 2; Side : B; Approx. Time Counter : 0}*

The committee adjourned until 8:45 am to allow staff to determine if the two formulas would work. The committee was concerned if the number would be acceptable for the Governor. **CHAIRMAN TAYLOR** asked for calculations with a flat number ending fund balance of \$28,000,000.00, and a trigger being set at \$35,000,000.00, in addition to the two other formulas.

SEN. HALLIGAN asked if supplementals came from the ending fund balance, or if they were pushed into the next biennium. They were pushed into the next biennium.

CHAIRMAN TAYLOR felt the Governor was considering an ending fund balance of \$22,000,000.00, or as required by statute. **REP. STORY** stated the ending fund balance must be at 1% when the Legislature left.

ADJOURNMENT

Adjournment: 5:40 P.M.

SEN. MIKE TAYLOR, Chairman

Phoebe Olsen, Secretary

Shannon Gleason, Transcriber

MT/DM/

EXHIBIT (frs70sb0200aad)